

SHELBY COUNTY  
MYRTUE MEMORIAL HOSPITAL  
D/B/A MYRTUE MEDICAL CENTER

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2010 AND 2009

# MYRTUE MEDICAL CENTER

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MYRTUE MEDICAL CENTER  
Officials  
June 30, 2010

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Judy Tamm, Chairperson	Harlan, Iowa	2012
Don Holdsworth, Vice-Chairperson	Irwin, Iowa	2012
Frank Powers, Secretary/Treasurer	Defiance, Iowa	2014
Allan Hjelle	Elk Horn, Iowa	2010
Carmen Hosack	Harlan, Iowa	2014
Cheryl Chipman	Harlan, Iowa	2010
Larry Miller	Harlan, Iowa	2012
<u>Chief Executive Officer:</u>		
Barry Jacobsen	Portsmouth, Iowa	
<u>Chief Financial Officer:</u>		
Sue Blake	Tekamah, Nebraska	
<u>Chief Nursing Executive:</u>		
Karen Buman	Harlan, Iowa	

# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

MARK D. KYHNN  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Myrtue Medical Center  
Harlan, Iowa

We have audited the accompanying balance sheets Myrtue Medical Center as of June 30, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Myrtue Medical Center as of June 30, 2010 and 2009, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2010, on our consideration of Myrtue Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the Board of Trustees  
Myrtue Medical Center

The management's discussion and analysis and the budgetary comparison schedule on pages 4 through 4e and 22 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information (shown on pages 23 through 29) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Gronewald, Bell, Kuhlman & Co. P.C.*  
Atlantic, Iowa  
September 30, 2010



1213 Garfield Ave  
Harlan, IA 51537  
712.755.5161

[www.myrtuemedical.org](http://www.myrtuemedical.org)

## MYRTUE MEDICAL CENTER Management's Discussion and Analysis

Our discussion and analysis of Myrtue Medical Center's (Hospital's) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2010, 2009, and 2008. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

### FINANCIAL HIGHLIGHTS

The 2010 fiscal year was the fourth full year of Critical Access and hospital-based Rural Health Clinic designation for Myrtue Medical Center.

In 2010 the Hospital reported an increase in Operating Income of \$567,000 when compared to the previous year. In 2009, the Hospital reported a decrease in Operating Income of \$333,000 compared to the previous year.

Non-operating revenues of \$889,000 stayed fairly consistent with the 2009 year.

### THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the Hospital finances begins on page 4a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statements of Revenues and Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

### CLINIC LOCATIONS

**HARLAN**  
1220 Chatburn Ave  
Harlan, IA 51537  
712.755.5130

**SHELBY**  
301 East  
Shelby, IA 51570  
712.544.2511

**AVOCA**  
510 North Elm  
Avoca, IA 51521  
712.343.6455

**ELK HORN**  
4022 North Main  
Elk Horn, IA 51531  
712.764.4642

**HARLAN**  
1303 Garfield Ave  
Harlan, IA 51537  
712.755.5056

MYRTUE MEDICAL CENTER  
Management's Discussion and Analysis - Continued

## THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

## THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5.

Table 1: Assets, Liabilities, and Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 9,761,096	\$ 9,981,813	\$ 8,952,777
Capital assets, net	23,381,195	13,845,941	13,007,267
Other noncurrent assets	<u>10,618,462</u>	<u>13,168,362</u>	<u>12,794,114</u>
Total assets	<u>\$ 43,760,753</u>	<u>\$ 36,996,116</u>	<u>\$ 34,754,158</u>
Liabilities:			
Long-term debt outstanding	\$ 2,520,560	\$ 205,849	\$ 316,916
Other current and noncurrent liabilities	<u>5,156,664</u>	<u>4,008,960</u>	<u>3,798,249</u>
Total liabilities	<u>\$ 7,677,224</u>	<u>\$ 4,214,809</u>	<u>\$ 4,115,165</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 19,981,938	\$ 13,421,712	\$ 12,690,351
Restricted expendable	84,058	871,330	794,249
Unrestricted	<u>16,017,433</u>	<u>18,488,265</u>	<u>17,154,393</u>
	<u>\$ 36,083,429</u>	<u>\$ 32,781,307</u>	<u>\$ 30,638,993</u>

Current assets decreased \$220,700 from the previous year including a cash decrease of \$2,536,000. At the end of 2009, the hospital was in the middle of construction of a wellness center, so cash and investments were maintained at a higher liquidity to meet construction cost obligations. On June 30, 2010, the project was nearing completion and therefore cash was reduced to minimum operating levels. Net accounts receivable increased \$1,280,000 due to a 12.3% increase in gross revenues.

Capital assets increased by \$9,535,000 from the previous year. This was mostly due to construction in progress of a wellness center which was nearing completion by June 30, 2010.

MYRTUE MEDICAL CENTER  
Management's Discussion and Analysis - Continued

Other noncurrent assets decreased by \$2,555,000 from the previous year. This decrease is mainly due to utilizing investments for wellness center construction costs.

Other current and noncurrent liabilities increased by \$1,148,000 from last year. This increase was mainly caused by an increase in accounts payable, primarily construction payables, at year end.

#### OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2010, the Hospital's net assets increased by \$3,302,000 or 10.1 percent, as shown in Table 2. Net assets increased by \$2,142,000 or 7.0 percent in 2009.

Table 2: Operating Results and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues:			
Net patient service revenue	\$ 27,493,923	\$ 24,513,230	\$ 25,459,227
Other operating revenues	<u>279,282</u>	<u>254,802</u>	<u>247,486</u>
Total operating revenues	27,773,205	24,768,032	25,706,713
Operating Expenses:			
Salaries and benefits	14,054,997	12,879,437	13,110,169
Professional fees	4,921,155	4,250,285	4,551,943
Depreciation	1,274,732	1,324,322	1,346,618
Other operating expenses	<u>6,854,016</u>	<u>6,212,655</u>	<u>6,263,435</u>
Total operating expenses	<u>27,104,900</u>	<u>24,666,699</u>	<u>25,272,165</u>
Operating income	668,305	101,333	434,548
Nonoperating Revenues and Expenses:			
County taxes	596,609	557,746	515,308
Investment income	284,860	371,328	551,072
Noncapital grants and contributions	47,480	38,656	46,889
Other nonoperating revenues and expenses, net	<u>( 39,730)</u>	<u>( 60,056)</u>	<u>( 38,230)</u>
Nonoperating revenues (expenses), net	<u>889,219</u>	<u>907,674</u>	<u>1,075,039</u>
Excess of Revenues over Expenses Before Capital Grants and Contributions, and Endowments	1,557,524	1,009,007	1,509,587
Grants, Contributions, and Endowments:			
Capital grants and contributions	<u>1,744,598</u>	<u>1,133,307</u>	<u>729,730</u>
Excess of Revenues over Expenses	3,302,122	2,142,314	2,239,317
Net Assets Beginning of Year	<u>32,781,307</u>	<u>30,638,993</u>	<u>28,399,676</u>
Net Assets End of Year	<u>\$ 36,083,429</u>	<u>\$ 32,781,307</u>	<u>\$ 30,638,993</u>



MYRTUE MEDICAL CENTER  
Management's Discussion and Analysis - Continued

## OPERATING INCOME

The first component of the overall change in the Hospital's net assets is its operating income—generally, the difference between net patient service revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported a positive operating income. This is consistent with the Hospital's previous twelve years.

The primary components of the operating income are:

An increase in net revenue of \$2,981,000, a 12.2 percent increase, in 2010 compared to a decrease of \$946,000 or 4 percent in net revenue in 2009.

The increase in salary and benefit costs for the Hospital's employees was \$1,176,000, a 9.1 percent increase, in 2010 compared to a decrease of \$231,000 or 1.8 percent in 2009.

An increase in professional fee costs of \$671,000, a 15.8 percent increase, in 2010 compared to a decrease of \$302,000 or 6.6 percent in 2009.

Other operating costs increased by \$641,000, a 10.3 percent increase, in 2010 compared to a decrease of \$51,000 or 0.8 percent in 2009.

Overall expenses increased 9.9 percent or \$2,438,000 in 2010 compared to a decrease of 2.4 percent or \$605,000 in 2009.

The increases above were mainly due to increases in volume of surgical procedures and outpatient services provided:

	<u>% Increase (Decrease)</u>	<u>2010</u>	<u>2009</u>
Inpatient Days	(8.8%)	4923	5,401
Average Daily Census	(8.8%)	13.5	14.8
Physician Clinic Visits	(4.8%)	33,128	34,799
Surgical Procedures	52.2%	1336	878
Outpatient Visits	7.3%	32,336	30,136
Observation Patients	79.4%	470	262

The current shortage of professional caregivers and technologists continues to drive up some salary costs. The Hospital must keep pace with the industry to compete for the highly sought after professionals. The advent of new technology and medicines requires additional capital and operating expense to provide current standard of care for our patients. The Hospital works closely with its purchasing partner VHA Inc. to purchase medicines and supplies at the most economical rate possible for an organization of our size.

The Hospital routinely provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Hospital when it was established in 1954. The level of services provided to these patients decreased from \$288,509 in 2009 to \$263,971 in 2010.

**MYRTUE MEDICAL CENTER**  
**Management's Discussion and Analysis - Continued**

**NONOPERATING REVENUES AND EXPENSES**

Nonoperating revenues consist primarily of property taxes levied by the Hospital and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1. The Hospital maintained its tax asking at 98 cents per thousand dollars valuation this year for the fifth year in a row. Variation in the revenue is a result of changing valuations and actual tax collection for the year, but as a whole the Hospital is less reliant upon county tax revenue than it was fourteen years ago (\$548,129 in 2010 vs. \$620,320 in 1996). The Hospital's investment income has declined due to significant drops in interest rates.

**CONTRIBUTIONS AND ENDOWMENTS**

During the 2007 fiscal year, the Hospital started a fundraising campaign to build a \$10 million wellness center. The Hospital has obtained pledges of approximately \$7.2 million dollars which includes \$1.7 million in donations received during the 2010 fiscal year.

**THE HOSPITAL'S CASH FLOWS**

The purpose of the statement of cash flows is to show the readers where cash was generated and how it was spent on a cash basis. The 2010 net cash provided by operating activities was \$1,133,000. In 2009, net cash provided by operating activities was \$2,332,000.

Net cash used in capital and related financing activities in 2010 was \$6,097,000, mainly due to the construction of a wellness center. In 2009, net cash used in capital and related financing activities was \$1,016,000.

Cash flow provided by investing activities was \$966,000 in 2010. In 2009, net cash provided by investing activities was \$1,221,000.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:**

At the end of 2010, the Hospital had \$13.65 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. During 2010, the Hospital spent \$10,810,000 on land, equipment and building improvements, a large portion of which was due to the construction of a wellness center. In 2009, \$2,163,000 was spent on land, equipment and building improvements.

**Debt:**

In 2010 the hospital secured a loan for \$2.5 million to finish construction on its wellness center. The loan is secured by a Revenue Note and is payable over 15 years.

**BUDGETARY HIGHLIGHTS**

The official county budget of the Hospital for the year ended June 30, 2010 was prepared on a modified accrual basis. As indicated on page 22, actual expenditures were approximately \$4,322,000 lower than budgeted due to an unexpected decrease in volume of inpatient services provided.

MYRTUE MEDICAL CENTER  
Management's Discussion and Analysis - Continued

OTHER ECONOMIC FACTORS

The Hospital is a rural hospital in west central Iowa. The Medicare program represents about 65% of the revenues the Hospital receives, and represents the greatest risk to our revenues. Payment changes and revamping of the Program by Congress can have a much larger effect on the Hospital due to its high percentage of Medicare patients.

The Hospital has been designated as a Critical Access Hospital. This designation has resulted in Medicare and Medicaid paying 101% of defined costs for services provided to eligible patients, thereby increasing reimbursement.

The Hospital's rural health clinics in Harlan, Avoca, Shelby, and Elk Horn, Iowa also receive cost-based reimbursement from Medicare and Medicaid, which has substantially increased reimbursement to the clinics.

The effect of national health care reform is unknown as of the date of this report.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Myrtue Medical Center, 1213 Garfield Avenue, Harlan, Iowa 51537.

\* \* \*

MYRTUE MEDICAL CENTER  
Balance Sheets  
June 30,

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash	\$ 763,524	\$ 3,299,522
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$2,482,000 in 2010, \$2,109,000 in 2009)	6,248,013	4,968,276
Other receivables	217,513	135,360
Related organization receivable	6,142	127,055
Inventory	142,562	156,931
Prepaid expense	217,883	186,384
Succeeding year property tax receivable	591,200	526,600
Internally designated assets	<u>1,574,259</u>	<u>581,685</u>
Total current assets	9,761,096	9,981,813
Designated and Restricted Assets:		
Internally designated assets	11,397,770	12,230,696
Restricted assets	<u>400,148</u>	<u>1,142,575</u>
	11,797,918	13,373,271
Less amounts required to meet current liabilities	<u>1,574,259</u>	<u>581,685</u>
	10,223,659	12,791,586
Capital Assets:		
Depreciable capital assets, net	9,730,742	10,258,365
Non-depreciable capital assets	<u>13,650,453</u>	<u>3,587,576</u>
	23,381,195	13,845,941
Other Assets:		
Notes receivable	33,868	53,443
Deferred costs	16,453	23,322
Other	<u>344,382</u>	<u>300,011</u>
	394,703	376,776
Total assets	<u>\$ 43,760,653</u>	<u>\$ 36,996,116</u>

The accompanying notes are an integral part of these statements.

# LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 242,960	\$ 116,000
Accounts payable	1,823,167	1,108,513
Accrued employee compensation	1,042,696	905,633
Payroll taxes withheld and accrued	130,085	97,898
Accrued interest	800	800
Estimated third-party payor settlements	1,018,000	850,000
Other current liabilities	217,083	248,271
Deferred revenue, current	221,692	--
Deferred revenue for succeeding year property tax receivable	<u>591,200</u>	<u>526,600</u>
Total current liabilities	<u>5,287,683</u>	<u>3,853,715</u>
Long-Term Debt, less current maturities	2,277,600	89,849
Deferred Revenue	<u>111,941</u>	<u>271,245</u>
Total liabilities	<u>7,677,224</u>	<u>4,214,809</u>
Net Assets:		
Invested in capital assets, net of related debt	19,981,938	13,421,712
Restricted expendable	84,058	871,330
Unrestricted	<u>16,017,433</u>	<u>18,488,265</u>
Total net assets	<u>36,083,429</u>	<u>32,781,307</u>
 Total liabilities and net assets	 <u>\$ 43,760,653</u>	 <u>\$ 36,996,116</u>

MYRTUE MEDICAL CENTER  
Statements of Revenues, Expenses and Changes in Net Assets  
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Revenue:		
Net patient service revenue	\$ 27,493,923	\$ 24,513,230
Other revenue	<u>279,282</u>	<u>254,802</u>
Total revenue	27,773,205	24,768,032
Expenses:		
Salaries and wages	11,325,248	10,475,840
Employee benefits	2,729,749	2,403,597
Professional fees	4,921,155	4,250,285
Supplies and other expenses	6,854,016	6,212,655
Provision for depreciation	<u>1,274,732</u>	<u>1,324,322</u>
Total expenses	<u>27,104,900</u>	<u>24,666,699</u>
Operating Income	668,305	101,333
Non-Operating Revenues (Expenses):		
Investment income	284,860	371,328
Noncapital grants and contributions	47,480	38,656
County taxes	548,129	512,462
Behavioral health county revenue	48,476	45,284
Healthcare education loans, net	5,538	( 5,660)
Interest expense	( 6,391)	( 12,383)
Contracted ambulance service	( 65,328)	( 65,328)
Gain on disposal of assets	500	2,853
Clinic buildings revenue, net	<u>25,955</u>	<u>20,462</u>
Non-operating revenues, net	<u>889,219</u>	<u>907,674</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,557,524	1,009,007
Capital Grants and Contributions:		
Wellness center	1,689,598	1,118,307
Other	<u>55,000</u>	<u>15,000</u>
Increase in Net Assets	3,302,122	2,142,314
Net Assets Beginning of Year	<u>32,781,307</u>	<u>30,638,993</u>
Net Assets End of Year	<u>\$ 36,083,429</u>	<u>\$ 32,781,307</u>

The accompanying notes are an integral part of these statements.

MYRTUE MEDICAL CENTER  
Statements of Cash Flows  
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 26,362,421	\$ 25,247,783
Cash paid to suppliers	( 14,320,253)	( 12,718,379)
Cash paid to employees	( 11,188,185)	( 10,452,641)
Other revenue	<u>279,282</u>	<u>254,802</u>
Net cash provided by operating activities	1,133,265	2,331,565
Cash flows from non-capital financing activities:		
County tax revenue	596,605	557,746
Contracted ambulance service	( 65,328)	( 65,328)
Noncapital grants and contributions	<u>62,480</u>	<u>53,974</u>
Net cash provided by non-capital financing activities	593,757	546,392
Cash flows from capital and related financing activities:		
Capital expenditures	( 10,109,084)	( 2,029,481)
Proceeds from disposal of assets	500	2,853
Proceeds from issuance of debt	2,500,000	--
Payments on long-term debt	( 185,289)	( 111,067)
Debt issue costs incurred	( 10,942)	--
Capital grants and contributions	1,744,598	1,133,307
Interest paid	<u>( 36,338)</u>	<u>( 12,383)</u>
Net cash used in capital and related financing activities	( 6,096,555)	( 1,016,771)
Cash flows from investing activities:		
Investment income	215,179	442,769
Change in designated and restricted assets	768,425	790,303
Clinic buildings, net	25,955	20,462
Change in notes receivable	1,200	( 4,699)
Change in other assets	<u>( 44,371)</u>	<u>( 27,576)</u>
Net cash provided by investing activities	966,388	1,221,259
Net increase (decrease) in cash and cash equivalents	( 3,403,145)	3,082,445
Cash and cash equivalents, beginning of year	<u>5,572,578</u>	<u>2,490,133</u>
Cash and cash equivalents, end of year	<u>\$ 2,169,433</u>	<u>\$ 5,572,578</u>

(continued next page)

MYRTUE MEDICAL CENTER  
Statements of Cash Flows - Continued  
Year ended June 30,

	<u>2010</u>	<u>2009</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 763,524	\$ 3,299,522
Cash in designated and restricted assets	<u>1,405,909</u>	<u>2,273,056</u>
Total cash and cash equivalents	<u>\$ 2,169,433</u>	<u>\$ 5,572,578</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 668,305	\$ 101,333
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	1,274,732	1,324,322
Amortization	36,186	43,868
Change in assets and liabilities		
Accounts receivable	( 1,361,890)	802,760
Related organization receivable	120,913	5,735
Inventory	14,369	( 9,805)
Prepaid expense	( 31,499)	9,756
Accounts payable, trade	43,699	91,573
Accrued employee compensation	137,063	23,199
Estimated third-party payor settlements	168,000	( 116,000)
Payroll taxes withheld and accrued	32,187	( 3,577)
Other current liabilities	( 31,188)	10,608
Deferred revenue	<u>62,388</u>	<u>47,793</u>
Total adjustments	<u>464,960</u>	<u>2,230,232</u>
Net cash provided by operating activities	<u>\$ 1,133,265</u>	<u>\$ 2,331,565</u>

The accompanying notes are an integral part of these statements.



MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

The organization is a county hospital with related healthcare ancillary, outpatient, and physician clinic services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Hospital has one component unit, Shelby County Medical Corporation (SCMC). SCMC contracts physician services to the Hospital's physician clinics, and virtually all of its transactions are with the Hospital. It has limited assets and liabilities other than between SCMC and the Hospital. Therefore, combining the component unit would not have a material effect on these financial statements (See Note J).

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of \$3,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized \$29,947 of interest cost in 2010 (none in 2009).

9. Compensated Absences

Hospital employees earn paid time off (PTO) hours at varying rates depending on years of service. PTO time accumulates to a maximum of 360 hours. Any excess over 360 hours is lost. Employees may elect to receive salary in lieu of PTO for hours accumulated in excess of 160, at the end of each quarter. The computed amount of PTO benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Hospital has no endowment funds.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2010 and 2009

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

16. Net Assets

Net assets of the Hospital are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient acute services, inpatient nonacute services, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare and Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2008. However, finalized cost reports are subject to re-opening by the intermediaries within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2010 and 2009

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Expendable restricted net assets are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Healthcare education loans	\$ 84,058	\$ 78,520
Wellness center	--	792,810
Family planning initiative	<u>316,090</u>	<u>271,245</u>
	<u>\$ 400,148</u>	<u>\$ 1,142,575</u>

The Hospital has no nonexpendable restricted net assets or endowments at June 30, 2010 or 2009.

Following is a summary of the use of temporarily restricted net assets during the year ended June 30:

	<u>2010</u>	<u>2009</u>
Purchase of property and equipment	\$ 2,537,408	\$ 1,069,761
Education loans forgiven	9,462	20,978
Family planning initiative	<u>220,103</u>	<u>264,388</u>
	<u>\$ 2,766,973</u>	<u>\$ 1,355,127</u>

NOTE D - DESIGNATED NET ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$16,017,433 (\$18,488,265 in 2009) of unrestricted net assets, \$11,397,770 (\$12,230,696 in 2009) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	<u>2010</u>	<u>2009</u>
Capital acquisitions and related debt	\$ 9,813,983	\$ 10,835,152
Employee health insurance	<u>1,583,787</u>	<u>1,395,544</u>
	<u>\$ 11,397,770</u>	<u>\$ 12,230,696</u>

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2010 and 2009

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

	<u>2010</u>	<u>2009</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 1,077,360	\$ 891,756
Certificates of deposit	10,033,838	10,775,971
Capital stock	255,008	185,327
Interest receivable	25,640	61,067
Due from restricted fund	<u>5,924</u>	<u>316,575</u>
	<u>\$ 11,397,770</u>	<u>\$ 12,230,696</u>
Restricted Assets:		
Cash and cash equivalents	\$ 328,549	\$ 1,381,300
Education loans	77,523	77,360
Accrued interest	--	490
Due to board designated fund	<u>( 5,924)</u>	<u>( 316,575)</u>
	<u>\$ 400,148</u>	<u>\$ 1,142,575</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2010 and 2009

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Receivable from:		
Patients	\$ 3,461,178	\$ 3,194,305
Medicare	2,458,737	1,855,889
Medicaid	609,047	379,012
Wellmark	1,297,511	897,100
Other commercial insurance carriers	827,940	644,530
Others	<u>75,600</u>	<u>106,440</u>
	8,730,013	7,077,276
Less allowances for doubtful accounts and contractual adjustments	<u>2,482,000</u>	<u>2,109,000</u>
	<u>\$ 6,248,013</u>	<u>\$ 4,968,276</u>

NOTE G - CAPITAL ASSETS

Hospital capital assets, additions, disposals and balances for the years ended June 30, 2010 and 2009 were as follows:

<u>Cost</u>	<u>Balance 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2010</u>
Land Improvements	\$ 474,425	\$ 3,698	\$ --	\$ 478,123
Buildings	14,322,443	43,388	--	14,365,831
Fixed Equipment	3,461,124	--	--	3,461,124
Major Movable Equipment	<u>9,318,321</u>	<u>700,023</u>	--	<u>10,018,344</u>
	27,576,313	747,109	--	28,323,422
<u>Depreciation</u>				
Land Improvements	361,427	14,566	--	375,993
Buildings	6,569,171	505,299	--	7,074,470
Fixed Equipment	3,112,684	66,912	--	3,179,596
Major Movable Equipment	<u>7,274,666</u>	<u>687,955</u>	--	<u>7,962,621</u>
Total Depreciation	<u>17,317,948</u>	<u>1,274,732</u>	--	<u>18,592,680</u>
Depreciable Capital Assets, Net	<u>\$ 10,258,365</u>	<u>\$ ( 527,623)</u>	<u>\$ --</u>	<u>\$ 9,730,742</u>
Non-depreciable Capital Assets:				
Land	\$ 1,430,076	\$ --	\$ --	\$ 1,430,076
Construction in progress	<u>2,157,500</u>	<u>10,514,397</u>	<u>451,520</u>	<u>12,220,377</u>
	<u>\$ 3,587,576</u>	<u>\$ 10,514,397</u>	<u>\$ 451,520</u>	<u>\$ 13,650,453</u>

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2010 and 2009

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2009</u>
Land Improvements	\$ 455,964	\$ 18,461	\$ --	\$ 474,425
Buildings	14,255,274	67,169	--	14,322,443
Fixed Equipment	3,461,124	--	--	3,461,124
Major Movable Equipment	<u>8,840,489</u>	<u>477,832</u>	<u>--</u>	<u>9,318,321</u>
	27,012,851	563,462	--	27,576,313
<u>Depreciation</u>				
Land Improvements	345,421	16,006	--	361,427
Buildings	6,066,910	502,261	--	6,569,171
Fixed Equipment	3,042,514	70,170	--	3,112,684
Major Movable Equipment	<u>6,538,781</u>	<u>735,885</u>	<u>--</u>	<u>7,274,666</u>
Total Depreciation	<u>15,993,626</u>	<u>1,324,322</u>	<u>--</u>	<u>17,317,948</u>
Depreciable Capital Assets, Net	<u>\$ 11,019,225</u>	<u>\$ ( 760,860)</u>	<u>\$ --</u>	<u>\$ 10,258,365</u>
Non-depreciable Capital Assets:				
Land	\$ 1,430,076	\$ --	\$ --	\$ 1,430,076
Construction in progress	<u>557,966</u>	<u>1,725,840</u>	<u>126,306</u>	<u>2,157,500</u>
	<u>\$ 1,988,042</u>	<u>\$1,725,840</u>	<u>\$ 126,306</u>	<u>\$ 3,587,576</u>

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2010 and 2009 follows:

	<u>Balance 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2010</u>	<u>Current Portion</u>
Long-Term Debt:					
Capital loan notes	\$ --	\$ 2,500,000	\$ 69,500	\$ 2,430,500	\$ 152,900
Capital lease	205,849	--	115,789	90,060	90,060
Other Liabilities:					
Deferred revenue	<u>271,245</u>	<u>282,491</u>	<u>220,103</u>	<u>333,633</u>	<u>221,692</u>
Total Non-Current Liabilities	<u>\$ 477,094</u>	<u>\$ 2,782,491</u>	<u>\$ 405,392</u>	<u>\$ 2,854,193</u>	<u>\$ 464,652</u>



MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2010 and 2009

NOTE H - NON-CURRENT LIABILITIES - Continued

	<u>Balance 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2009</u>	<u>Current Portion</u>
Long-Term Debt:					
Capital lease	\$ 316,916	\$ --	\$ 111,067	\$ 205,849	\$ 116,000
Other Liabilities:					
Deferred revenue	<u>223,452</u>	<u>312,181</u>	<u>264,388</u>	<u>271,245</u>	<u>--</u>
Total Non-Current Liabilities	<u>\$ 540,368</u>	<u>\$ 312,181</u>	<u>\$ 375,455</u>	<u>\$ 477,094</u>	<u>\$ 116,000</u>

Capital Loan Notes

The Hospital issued \$2,500,000 of Hospital Revenue Capital Loan Notes, Series 2010 to pay a portion of the costs of constructing and equipping a new Wellness Center. The notes are payable from the revenues of the Hospital. The notes mature in monthly installments including principal of \$13,900 and monthly interest on the remaining balance, beginning in March, 2010, through February, 2024. The interest rate for the first three years will be 2.85%, with the rate changing on February 1, 2013 and every three years thereafter based on the three year Federal Home Loan Bank Des Moines fixed rate advance rate plus 1.375% (subject to a 350 basis point lifetime cap and a 175 basis point re-pricing cap, with a lifetime floor of 2.85%). The Hospital has pledged its future revenues (net of expenses) to repay the notes. The annual debt service on the notes is expected to require less than 10% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$79,700 and \$2,838,600 respectively.

Under terms of the loan agreement, the Hospital is required to make timely note payments. The loan agreement also places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the notes are outstanding. The notes may be called for redemption by the Hospital by giving 30 days notice of redemption to the holder.

Capital Lease

The Hospital has entered into a capital lease for the purchase of equipment. The lease carries an interest rate of 4.17% and matures in March of 2011.

Deferred Revenue

Deferred revenue at June 30, 2010 is related to an Iowa Family Planning Initiative (IFPI) grant (\$316,090) and annual dues to the Wellness Center paid in advance (\$17,543). The balance at year end includes \$204,149 of unexpended restricted grant proceeds and \$111,941 of funds made available for the project through Hospital revenues.

Deferred revenue at June 30, 2009 was the unearned portion of the IFPI grant, \$192,476, and \$78,769 of other funds made available for the project.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2010 and 2009

NOTE H - NON-CURRENT LIABILITIES - Continued

Assets recorded under the capital lease consist of the following at June 30:

	<u>2010</u>	<u>2009</u>
Medical Equipment	\$ 552,454	\$ 552,454
Less: Accumulated Amortization	<u>469,586</u>	<u>359,094</u>
Net Book Value	<u>\$ 82,868</u>	<u>\$ 193,360</u>

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

Year Ending June 30,	Long-Term Debt		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 152,900	\$ 62,623	\$ 90,060	\$ 1,572	\$ 242,960	\$ 64,195
2012	166,800	63,779	--	--	166,800	63,779
2013	166,800	58,788	--	--	166,800	58,788
2014	166,800	53,968	--	--	166,800	53,968
2015	166,800	49,148	--	--	166,800	49,148
2016-20	834,000	173,629	--	--	834,000	173,629
2021-25	<u>776,400</u>	<u>53,184</u>	<u>--</u>	<u>--</u>	<u>776,400</u>	<u>53,184</u>
	<u>\$2,430,500</u>	<u>\$ 515,119</u>	<u>\$ 90,060</u>	<u>\$ 1,572</u>	<u>\$2,520,560</u>	<u>\$ 516,691</u>

NOTE I - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% (4.50% beginning July 1, 2010) of their annual salary and the Hospital is required to contribute 6.65% (6.95% beginning July 1, 2010) of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were approximately \$729,000, \$651,000, and \$600,100, respectively, equal to the required contributions for each year.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2010 and 2009

NOTE J - RELATED ORGANIZATIONS

Shelby County Medical Corporation

Shelby County Medical Corporation (SCMC) employs the physicians who staff the Hospital owned Rural Health Clinics. The Hospital purchases the physician services at a set cost per Relative Value Unit (RVU). SCMC is paid at an interim monthly rate, with a net settlement determined at year end, based on the total RVUs provided. The Hospital provides limited administrative services to assist SCMC in its operations.

Below, and in the following section is information about transactions between the Hospital and SCMC:

	<u>2010</u>	<u>2009</u>
Purchase of services from SCMC	\$ <u>2,537,040</u>	\$ <u>2,095,009</u>
Sale of services to SCMC	\$ <u>24,000</u>	\$ <u>24,000</u>
Amount receivable from SCMC at year end	\$ <u>6,142</u>	\$ <u>127,055</u>

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Montgomery County Memorial Hospital of Red Oak) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2010</u>	<u>2009</u>
Services purchased from HPSI	\$ <u>71,039</u>	\$ <u>64,128</u>
Services sold to HPSI	\$ <u>58,783</u>	\$ <u>56,544</u>
Amount due from (to) HPSI	\$( <u>1,292</u> )	\$ <u>1,319</u>
Member share of net assets	\$ <u>344,382</u>	\$ <u>300,011</u>

The member share of net assets is included in other assets and the amounts due from (to) HPSI are included in other receivables and accounts payable on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI will be on file at the Hospital and the office of the State Auditor.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2010 and 2009

NOTE K - COMMITMENTS AND CONTINGENCIES

Shelby County Ambulance Commission

The Hospital has committed to participate in the support of the Shelby County Ambulance Commission along with the City of Harlan. The Commission is a private corporation which provides ambulance services to Shelby County and surrounding communities. The Hospital has agreed to provide financial support totaling \$65,300 in 2010-11.

Self Funded Health/Disability Insurance

The Hospital has established an employee health and disability insurance fund. Under the self-insured plan, the Hospital pays health claims from this fund up to maximum limits and carries stop loss insurance for health claims in excess of the limits. In addition, the Hospital pays sixty percent of a disabled employee's salary for up to six months, and carries long-term disability insurance for claims longer than a six month period. At June 30, 2010 and 2009 the Hospital had accumulated funds in excess of actual claims paid of approximately \$1,584,000 and \$1,396,000, respectively. These funds, shown under designated and restricted assets, are designated by the Board to pay claims as they are filed in the future. An allowance for unpaid claims at June 30, 2010 of approximately \$220,200 (\$247,300 in 2009) is included in current liabilities.

Notes Receivable

The Hospital has provided financial aid to several medical occupation students enabling them to complete their education. In exchange for the aid, the Hospital receives promissory notes and the commitment of the students to pursue their medical occupation in the Harlan area for a specified period of time upon graduation from the programs. The promissory notes contain clauses indicating they will be forgiven on a pro rata basis as the commitments are fulfilled. If the students fail to fulfill the commitments, the notes are to be repaid, including interest.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Myrtue Medical Center is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during any of the past three fiscal years.

Other Post Employment Benefits (OPEB)

The Hospital implemented GASB Statement No. 45 Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions during the year ended June 30, 2009.

**Plan Description:** As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retiree must pay a health insurance premium equal to that charged for current employees.

**Potential for Liability:** A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

MYRTUE MEDICAL CENTER  
Notes to Financial Statements  
June 30, 2010 and 2009

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

Construction Projects

The Hospital has entered into two major construction and remodeling projects.

- A. Wellness Center - The Hospital, in coordination with the Harlan community, has nearly completed the construction of a combined Community Wellness Center and Hospital physical therapy building, currently estimated to cost approximately \$10,800,000. Funds for this project have been obtained through grants, a community fund drive, the issue of \$2,500,000 of debt, and funds from the Hospital. At June 30, 2010, approximately \$10,660,000 of costs were included in construction in progress for the project, with a scheduled completion date of August, 2010.
- B. Remodeling and Construction - The Hospital has incurred approximately \$1,560,000 of cost related to a facility master plan, a building acquisition and remodeling to house the Home and Public Health departments, and several other small projects, included in construction in progress at year end. The facility master plan involves the relocation and modernization of all outpatient services and the remodeling of existing space for other uses. Because various scenarios are being considered, eventual cost of this project cannot currently be estimated. Funding for this project will be obtained through funds generated internally and the issue of debt.

Subsequent Events

The Hospital has evaluated all subsequent events through September 30, 2010, the date the financial statements were available to be issued.

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## REQUIRED SUPPLEMENTARY INFORMATION

MYRTUE MEDICAL CENTER  
Budgetary Comparison Schedule  
Year Ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 548,129	\$ --	\$ 548,129
Other revenues	27,879,192	1,979,701	29,858,893
Transfers in (out)	<u>2,766,973</u>	<u>( 2,766,973)</u>	<u>--</u>
	31,194,294	( 787,272)	30,407,022
Expenses	<u>27,104,900</u>	<u>--</u>	<u>27,104,900</u>
Net	4,089,394	( 787,272)	3,302,122
Balance beginning of year	<u>31,909,977</u>	<u>871,330</u>	<u>32,781,307</u>
Balance end of year	<u>\$ 35,999,371</u>	<u>\$ 84,058</u>	<u>\$ 36,083,429</u>

	Total Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 548,129	\$ --	\$ 548,129	\$ 526,638
Other revenues	<u>29,858,893</u>	<u>71,719</u>	<u>29,930,612</u>	<u>32,734,730</u>
	30,407,022	71,719	30,478,741	33,261,368
Expenses	<u>27,104,900</u>	<u>71,719</u>	<u>27,176,619</u>	<u>31,498,809</u>
Net	3,302,122	--	3,302,122	1,762,559
Balance beginning of year	<u>32,781,307</u>	<u>( 2,027,056)</u>	<u>30,754,251</u>	<u>30,754,251</u>
Balance end of year	<u>\$ 36,083,429</u>	<u>\$( 2,027,056)</u>	<u>\$ 34,056,373</u>	<u>\$ 32,516,810</u>

See Independent Auditor's Report.

## SUPPLEMENTARY INFORMATION



MYRTUE MEDICAL CENTER  
Patient Receivables  
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 3,221,436	36.9%	\$ 2,586,874	36.6%
31 - 90	1,892,127	21.7	1,271,791	18.0
91 - 180	892,894	10.2	552,284	7.8
181 - 365	597,738	6.8	362,508	5.1
Over 365	<u>2,125,818</u>	<u>24.4</u>	<u>2,303,819</u>	<u>32.5</u>
	8,730,013	<u>100.0%</u>	7,077,276	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	1,040,000		983,000	
Allowance for contractual adjustments	<u>1,442,000</u>		<u>1,126,000</u>	
	<u>\$ 6,248,013</u>		<u>\$ 4,968,276</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2010</u>	<u>2009</u>
Balance, beginning	\$ 983,000	\$ 998,000
Provision for bad debts	950,862	921,605
Recoveries of accounts previously written off	<u>282,284</u>	<u>196,522</u>
	2,216,146	2,116,127
Accounts written off	<u>1,176,146</u>	<u>1,133,127</u>
Balance, ending	<u>\$1,040,000</u>	<u>\$ 983,000</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER  
Patient Service Revenue  
Year ended June 30,

	2010	
	<u>Inpatient</u>	<u>Swing-Bed</u>
<u>Daily Patient Services</u>		
Medical, surgical and obstetrical	\$ 1,584,175	\$ 475,725
Nursery	124,207	--
	<u>1,708,382</u>	<u>475,725</u>
<u>Other Nursing Services</u>		
Observation beds	15,469	--
Clinic room	126	--
Operating and recovery room	327,530	16,217
Delivery and labor room	261,395	--
Emergency service	64,547	543
Medical supplies	203,007	20,715
Intravenous therapy	93,503	23,838
	<u>965,577</u>	<u>61,313</u>
<u>Other Professional Services</u>		
Emergency room physicians	--	--
Laboratory	704,534	175,738
Electrocardiology	42,368	3,924
Cardiac rehabilitation	--	--
Radiology	105,231	31,971
CT scanning	419,182	50,986
Nuclear imaging	2,539	1,872
Ultrasound	193,894	16,780
MRI	96,750	19,350
Pharmacy	939,581	538,336
Chemotherapy	7,904	8,239
Anesthesia	200,460	6,162
Respiratory therapy	343,508	172,554
Physical therapy	111,709	292,712
Occupational therapy	44,903	173,806
Speech therapy	20,984	38,893
Home Health	--	--
Hospice	--	--
Family Planning	--	--
Public Health	--	--
Fitness Center	--	--
Occupational Health Outreach	--	--
Other	--	--
	<u>3,233,547</u>	<u>1,531,323</u>

(continued next page)

2010			2009
Outpatient	Physician Services	Total	Total
\$ 285,051	\$ --	\$ 2,344,951	\$ 2,299,429
--	--	124,207	117,551
<u>285,051</u>	<u>--</u>	<u>2,469,158</u>	<u>2,416,980</u>
285,419	--	300,888	133,097
401,447	--	401,573	342,663
2,003,103	--	2,346,850	1,458,913
45,723	--	307,118	314,608
1,796,930	--	1,862,020	1,843,807
572,946	46,827	843,495	468,738
3,007	--	120,348	103,929
<u>5,108,575</u>	<u>46,827</u>	<u>6,182,292</u>	<u>4,665,755</u>
--	789,293	789,293	771,118
2,444,228	2,907,313	6,231,813	6,168,677
339,419	--	385,711	342,263
154,710	--	154,710	137,540
1,293,835	506,170	1,937,207	1,751,731
2,650,293	--	3,120,461	2,919,625
147,261	--	151,672	148,262
1,158,927	--	1,369,601	1,331,971
907,515	--	1,023,615	1,041,191
825,134	457,655	2,760,706	2,621,209
1,715,016	--	1,731,159	1,221,741
614,518	--	821,140	538,273
451,126	--	967,188	844,865
1,262,200	--	1,666,621	1,570,256
130,077	--	348,786	343,564
23,240	--	83,117	50,214
864,504	--	864,504	819,131
870,060	--	870,060	570,381
615,194	--	615,194	438,429
515,919	--	515,919	510,406
39,458	--	39,458	47,022
204,467	--	204,467	184,605
1,220	--	1,220	360
<u>17,228,321</u>	<u>4,660,431</u>	<u>26,653,622</u>	<u>24,372,834</u>

MYRTUE MEDICAL CENTER  
Patient Service Revenue - Continued  
Year ended June 30,

	<u>2010</u>	
	<u>Inpatient</u>	<u>Swing-Bed</u>
<u>Behavioral Health</u>	\$ 920	\$ --
<u>Physician Clinic Services</u>		
Harlan	--	--
Avoca	--	--
Elk Horn	--	--
Shelby	--	--
	<u>--</u>	<u>--</u>
Total All Services	<u>\$ 5,908,426</u>	<u>\$ 2,068,361</u>

See Independent Auditor's Report.

2010			2009
Outpatient	Physician Services	Total	Total
\$ 422,831	\$ --	\$ 423,751	\$ 324,885
107,825	5,135,755	5,243,580	4,654,092
--	349,989	349,989	314,005
--	189,746	189,746	202,215
--	217,121	217,121	194,664
<u>107,825</u>	<u>5,892,611</u>	<u>6,000,436</u>	<u>5,364,976</u>
<u>\$ 23,152,603</u>	<u>\$ 10,599,869</u>	<u>\$ 41,729,259</u>	<u>\$ 37,145,430</u>

MYRTUE MEDICAL CENTER  
Revenue and Related Adjustments  
Year ended June 30,

	<u>2010</u>	<u>2009</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 41,729,259	\$ 37,145,430
Contractual adjustment	( 12,965,870)	( 11,354,033)
Provision for bad debts	( 950,862)	( 921,605)
Charity Care	( 263,971)	( 288,509)
Administrative adjustments	<u>( 54,633)</u>	<u>( 68,053)</u>
	<u>\$ 27,493,923</u>	<u>\$ 24,513,230</u>
 <u>Other Revenue</u>		
Cafeteria	\$ 92,043	\$ 89,266
Other dietary services	26,124	23,373
Rental income	65,334	78,642
Other	<u>95,781</u>	<u>63,521</u>
	<u>\$ 279,282</u>	<u>\$ 254,802</u>

See Independent Auditor's Report.

MYRTUE MEDICAL CENTER  
Schedule of Expenses  
Year ended June 30,

	2010		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Daily Patient Services</u>			
Nursing service	\$ 2,282,971	\$ 591,137	\$ 206,944
<u>Other Nursing Services</u>			
Clinic room	368,794	83,043	35,030
Operating and recovery room	367,166	66,650	157,371
Delivery and labor room	200,057	29,199	16,646
Emergency service	252,435	55,158	41,968
Medical supplies	83,977	20,885	521,762
Intravenous therapy	--	--	79,406
Total other nursing services	1,272,429	254,935	852,183
<u>Other Professional Services</u>			
Emergency room physicians	47,475	--	--
Laboratory	619,443	143,351	538,504
Electrocardiology	17,762	1,679	14,427
Cardiac rehabilitation	49,253	16,196	2,421
Radiology	455,857	107,851	357,068
CT scanning	--	--	112,701
Nuclear imaging	--	--	22,291
MRI	--	--	136,016
Pharmacy	281,166	65,228	472,365
Chemotherapy	23,374	2,273	720,254
Anesthesia	--	--	18,840
Respiratory therapy	132,107	32,453	207,252
Physical therapy	--	--	28,779
Occupational therapy	--	--	--
Speech therapy	--	--	--
Home Health	490,736	110,342	62,806
Public Health	415,211	111,104	118,622
Hospice	329,452	65,930	95,792
Family Planning	157,766	29,891	135,512
Occupational Health Outreach	58,873	12,752	24,025
Fitness Center	96,068	19,050	73,157
Medical records	261,037	67,052	218,067
Total other professional services	3,435,580	785,152	3,358,899

(continued next page)

2010			2009
Professional Fees	Depreciation Expense	Total Expenses	Total Expenses
\$ 3,661	\$ 59,757	\$ 3,144,470	\$ 2,956,390
28,763	7,681	523,311	446,561
8,031	81,631	680,849	504,219
--	15,998	261,900	261,124
--	13,123	362,684	327,571
--	232	626,856	333,226
--	--	79,406	65,435
<u>36,794</u>	<u>118,665</u>	<u>2,535,006</u>	<u>1,938,136</u>
358,102	--	405,577	389,066
175,292	32,877	1,509,467	1,422,168
--	--	33,868	53,271
--	2,019	69,889	65,956
--	68,851	989,627	896,078
--	110,491	223,192	213,762
--	--	22,291	40,169
--	--	136,016	141,518
--	415	819,174	723,826
--	--	745,901	602,383
425,320	8,463	452,623	455,800
--	18,406	390,218	339,798
682,863	8,321	719,963	608,843
142,975	6	142,981	128,041
54,927	--	54,927	21,277
77,748	4,002	745,634	749,610
--	3,459	648,396	600,259
--	--	491,174	399,324
99,681	--	422,850	446,594
627	34	96,311	92,193
--	4,925	193,200	75,462
--	1,316	547,472	488,770
<u>2,017,535</u>	<u>263,585</u>	<u>9,860,751</u>	<u>8,954,168</u>



MYRTUE MEDICAL CENTER  
Schedule of Expenses - continued  
Year ended June 30,

	2010		
	Salaries and Wages	Employee Benefits	Supplies and Other Expenses
<u>Behavioral Health</u>	\$ 208,542	\$ 57,383	\$ 99,601
<u>Physician Clinic Services</u>			
Harlan	1,850,616	370,877	593,509
Avoca	182,818	32,142	55,323
Elk Horn	160,544	37,632	29,125
Shelby	130,936	13,364	46,704
Total physician clinic services	2,324,914	454,015	724,661
<u>General Services</u>			
Dietary	408,521	114,986	271,333
Plant engineering	189,358	62,471	491,169
Housekeeping	202,782	88,462	52,016
Laundry and linen	33,792	8,873	96,067
Total general services	834,453	274,792	910,585
<u>Fiscal and Administrative</u>	966,359	312,335	701,143
<u>General Depreciation</u>	--	--	--
Total all departments	<u>\$ 11,325,248</u>	<u>\$ 2,729,749</u>	<u>\$ 6,854,016</u>

See Independent Auditor's Report.

<u>2010</u>			<u>2009</u>
<u>Professional Fees</u>	<u>Depreciation Expense</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
\$ --	\$ 1,894	\$ 367,420	\$ 306,996
2,463,793	68,391	5,347,186	4,543,697
67,991	2,232	340,506	306,962
41,420	2,327	271,048	256,981
41,200	2,695	234,899	180,313
<u>2,614,404</u>	<u>75,645</u>	<u>6,193,639</u>	<u>5,287,953</u>
--	8,665	803,505	765,015
--	16,073	759,071	827,972
--	1,666	344,926	377,229
--	--	138,732	129,388
<u>--</u>	<u>26,404</u>	<u>2,046,234</u>	<u>2,099,604</u>
248,761	130,337	2,358,935	2,524,481
<u>--</u>	<u>598,445</u>	<u>598,445</u>	<u>598,971</u>
<u>\$ 4,921,155</u>	<u>\$ 1,274,732</u>	<u>\$ 27,104,900</u>	<u>\$ 24,666,699</u>

MYRTUE MEDICAL CENTER  
Comparative Statistics  
Year ended June 30,

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Acute Care:					
Admissions	968	1,068	1,169	1,197	1,156
Discharges	961	1,075	1,163	1,200	1,155
Patient days	2,929	3,106	3,411	3,510	3,306
Average length of stay	3.0	2.9	2.9	2.9	2.9
Average occupied beds	8.0	8.5	9.3	9.6	9.1
Swing Bed:					
Admissions	282	275	362	339	390
Discharges	284	275	363	336	390
Patient days	1,994	2,295	2,810	2,180	2,264
Combined Average Occupied Beds	13.5	14.8	17.0	15.6	15.3
Nursery Days	249	249	262	213	188
Outpatient Visits	32,336	30,136	29,750	27,774	24,820

See Independent Auditor's Report.

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

MARK D. KYHNN  
DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
DAVID A. GINTHER

## Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees  
Myrtue Medical Center  
Harlan, Iowa

We have audited the financial statements of Myrtue Medical Center as of and for the year ended June 30, 2010, and have issued our report thereon dated September 30, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Myrtue Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Myrtue Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees  
Myrtue Medical Center

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 10-I-A to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Myrtue Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Myrtue Medical Center's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Myrtue Medical Center and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Granewald, Bell, Kyburz + Co. P.C.*  
Atlantic, Iowa  
September 30, 2010

MYRTUE MEDICAL CENTER  
Schedule of Findings  
Year ended June 30, 2010

PART I - SIGNIFICANT DEFICIENCIES

10-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. However, this situation is common in rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

PART II - REQUIRED STATUTORY REPORTING

10-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2010 did not exceed amounts budgeted therefore.

10-II-B Questionable Expenses: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Veteran's Memorial Auditorium and Club 191	Employee recognition dinner	\$ 6,091

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

10-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

10-II-D Business Transactions: During our audit, we noted no business transactions with Hospital employees or officials.

MYRTUE MEDICAL CENTER  
Schedule of Findings  
Year ended June 30, 2010

PART II - REQUIRED STATUTORY REPORTING - Continued

10-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

10-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

\* \* \*